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SUBJECT: SERBIAN ECONOMY: NEGATIVE GROWTH AND A DEBILITATING DEFICIT

REF: BELGRADE 838; 08 BELGRADE 1262

Summary

[11](#). (SBU) Serbia's poor macroeconomic indicators for the first half of 2009 reflect the growing negative impact of the global crisis and the IMF-agreed 3.5% target due to poor economic performance and lower-than-expected tax revenues. The government is borrowing heavily both dom

GDP Growth Rate of Minus 3.5% in Q1

[12](#). (SBU) First quarter GDP dropped 3.5% year on year (y/y), according to official statistics, a better result than the National Bank of Serbi (excluding energy and mining), construction, and trade, while growth was recorded in transportation and financial services. At a July 9 presser Stamenkovic of the independent Economic Institute disputed the government's calculation, claiming that the real drop for the first quarter was attributing the difference to government methodology.

Production Down, Unemployment and Inflation Up

[13](#). (SBU) Serbia's industrial production decreased by 17.4% (y/y) during the January-June time period. Retail turnover in May 2009 decreased 2009, but accumulated inflation for the first half of 2009 reached 7%. Serbia's average net monthly wage in June 2009 was \$489, nominally high from the Statistical Office (ref A).

Foreign Trade Shrinks by a Third

[14](#). (SBU) Serbia's foreign trade continued to shrink in the first half of 2009 due predominantly to the drop in global demand as a result of the world crisis. Serbia's exports in January-June 2009 shrank by 33% y/y to \$3.

Budget Deficit - A Growing Problem

[15](#). (SBU) Serbia's budget deficit continues to grow as the economic crisis lingers. The projected 2009 deficit, as agreed with the IMF last y

Government Headache: How to Close the Deficit

[16](#). (SBU) Prime Minister Mirko Cvetkovic stated on July 12 that the revised 2009 budget deficit would likely be \$615 million higher than the p said that the budget gap would be filled with loans from the EU, World Bank, Russia, commercial banks and selling Treasury bills on the domest pensions or wages, despite Dragutinovic's statements.

[17](#). (SBU) On August 13, Dragutinovic offered a more negative outlook that the final 2009 budget deficit would likely be around 5% of GDP (abou Stamenkovic stated that if the trend continued without some additional adjustments in the fiscal side (new taxes or new spending cuts), the ove \$2.5 billion or 6% of GDP, more than double what was initially agreed with the IMF.

Treasury Bills for Sale

[18](#). (SBU) In an effort to cover the deficit, the government has aggressively issued Treasury Bills. Between February and the beginning of Aug issued \$1 billion in Treasury notes, Serbia's Treasurer Ivan Maricic told us on August 3. Maricic said he was concerned that the government ha

An Additional \$500 Million in Drawing Rights

[19](#). (SBU) On August 12, NBS Governor Jelasic told the media that the IMF would allow Serbia to withdraw an additional \$500 million based on the of special drawing rights as part of the IMF efforts to boost global liquidity. This funding would be in addition to Serbia's Stand By Arrange be used for budget support. However, IMF Resident Representative in Serbia Bogdan Lisovolik stated the next day that it was too early to discu \$14 billion at the end of July, according to a National Bank of Serbia announcement on August 13.

Commercial Banks Cautious

[110](#). (SBU) Despite the macroeconomic figures, top bankers in the country told us they were moderately optimistic. Goran Pitic, President of t Zoran Petrovic, Board Member of Raiffeisen Bank, all agreed that in the short run the government would muddle through, but that the mid-term vi cut public consumption.

No More Cross Borders; Different Approach to Crisis

[111](#). (SBU) Commercial banks have become more pragmatic and cautious as a result of the situation, but some are expanding their operations. Di stringent NBS regulations). Such loans had been a significant source of financing for Serbian companies in the past. Petrovic and Vladimir C

COMMENT

[112](#). (SBU) Serbia is feeling the effects of the global economic crisis. The government's heavy reliance on borrowing to fund the budget has ir political will that can only come from the top. End Comment.

BRUSH